



January 12, 2006

Mr. Wayne Strumpfer, Acting Corporations Commissioner  
Department of Corporations  
1515 K Street, Suite 200  
Sacramento, CA 95814

Dear Mr. Strumpfer:

**Final Report: Department of Corporations—Internal Control Review**

Enclosed is our final report on the Department of Corporations' (Department) internal control as of March 17, 2005. The Department of Finance's Office of State Audits and Evaluations performed this review in accordance with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400 et seq.

The Department's written response is included herein. Implementation of the proposed corrective actions will help strengthen the Department's internal control and reduce the risk of errors or irregularities

In accordance with the Department of Finance's policy of increased transparency, the final report will be placed on the Finance website. We appreciate the assistance and cooperation of staff and management during our review. If you have any questions, please contact Susan M. Botkin, Manager, at (916) 322-2985.

Sincerely,

Original signed by Diana L. Ducay

Diana L. Ducay, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Michele Bond, Deputy Commissioner, Office of Management and Budget,  
Department of Corporations  
Ms. Sunne Wright McPeak, Secretary, Business, Transportation, and Housing Agency  
Mr. Michael Tritz, Chief Auditor, Business, Transportation, and Housing Agency

# AN INTERNAL CONTROL REVIEW

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## Department of Corporations

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

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The Department of Corporations (Department) protects the public through administration and enforcement of state laws governing the offer and sale of securities and franchise investments, the licensing and regulation of securities broker-dealers and investment advisers, and the licensing and examination of mortgage brokers, finance lenders, and escrow companies.

The Department is funded by license and examination fees, regulatory assessments, and fines and penalties collected from security brokers and dealers, investment advisors and financial planners, and certain fiduciaries and lenders.

State entity heads are responsible for the establishment and maintenance of internal and administrative controls. These controls are defined as a process to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; and (c) compliance with applicable laws and regulations. This definition includes five interrelated components:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable staff to carry out their responsibilities.
- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of our internal control review was to assist the Department in complying with the Financial Integrity and State Managers' Accountability Act of 1983. Specifically, we assisted the Department in determining whether: (1) assets are safeguarded from unauthorized use or disposition; (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements; and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, and certain other state laws and regulations, as well as the Department's policies and procedures.

While our review focused on the operations of the Department's main office in Sacramento, we did perform testing of the controls over cash receipts and fixed assets at the Los Angeles office.

Our review did not include an evaluation of the efficiency or effectiveness of the Department's operations, or the accomplishment of program goals or objectives.

This report is intended for the information and use of the Department and should not be used for any other purpose. However, the report is a matter of public record and its distribution is not limited.

**STAFF:**

Susan M. Botkin, CGFM  
Manager

Rebecca G. McAllister, CPA  
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Amal Kattan, CPA  
Anna Phu  
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Leia Williams  
Laurelea Williams, CFE

## EXECUTIVE SUMMARY

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We performed an internal control review of the Department of Corporations (Department) in accordance with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400 et seq. Our objectives were to determine whether the Department's internal control provides accurate financial reporting and effective control over receipts, expenditures, assets, and liabilities; and report observations as well as develop recommendations for improving the Department's internal control. Our review was limited to the Department's accounting and administrative functions and did not include an assessment of programmatic controls. Additionally, we reviewed the controls over cash receipts and fixed assets at the Los Angeles office.

During our review, we identified several areas where controls were in place and working as intended, and also identified areas where controls could be improved. We noted control weaknesses related to the Department's collection and safeguarding of cash receipts; oversight, monitoring, and accounting of accounts receivables, cash disbursements and the revolving fund; and inventorying, recording, and monitoring of fixed assets that we consider material weaknesses. If uncorrected, these weaknesses could expose the Department to increased risk of errors, irregularities, and material misstatements in the financial statements. Our observations are summarized below.

*Budget:* The Department's controls over its budget functions appear adequate to ensure the reliability and integrity of data. The Department utilizes and maintains current policies and procedures manuals and records appropriations timely.

*Financial Reporting:* The Department's Financial Reporting controls are adequate. We observed that required financial statements are properly prepared, certified, and submitted timely.

*Cash Receipts:* The Department's cash receipts controls are not sufficient to ensure the appropriate safeguarding of the Department's cash collection or the reliability and integrity of data. We observed the following issues over cash receipts: cash receipts are not inventoried when received, prelistings are not prepared for checks not payable to the Department, all checks are not endorsed the day they are received, and the Department's endorsement stamp is incorrect. In addition, the safe is not adequately restricted; it remains open during business hours, and the combination to the safe has not been changed since 2001. Additionally, cash deposits and remittance advices are not made or submitted timely. Finally, the Department has a large number of Uncleared Collections, several dating back to 1997. See the Findings and Recommendations section for further analysis.

*Receivables:* The Department's receivables controls are not adequate to ensure the reliability and integrity of data. We observed that 67 percent of the receivables were outstanding in excess of 365 days and write-offs are not being performed. Additionally, reconciliations are not performed timely. See the Findings and Recommendations section for further analysis.

*Cash Disbursements:* The Department's cash disbursement controls are not adequate to ensure assets are appropriately safeguarded against loss or misappropriation. Not all cash disbursement procedures are documented and there is a lack of separation of duties within the cash disbursement process. Furthermore, the Department has excessive outstanding checks, is deficient in monitoring outstanding checks, and has weak controls over blank check stock. Finally, there is an insufficient reconciliation of checks signed. See the Findings and Recommendations section for further analysis.

*Revolving Fund:* The Department's controls over revolving fund functions are not adequate to ensure the safeguarding of the state's assets. We observed that travel and salary advances were long outstanding, the Department's revolving fund reconciliations are not performed timely, and the transfer of petty cash was not proper. Additionally, the Office Revolving Fund Deficiency Claims for Reimbursement was not filed with the Department of Finance. See the Findings and Recommendations section for further analysis.

*Fixed Assets:* The Department's fixed asset controls are not sufficient to ensure the appropriate safeguarding of the state's assets or the reliability and integrity of data. We observed incomplete property records; lack of reconciliations being performed; weak controls over recording, tagging, and inventorying equipment; and deficient survey reports. See the Findings and Recommendations section for further analysis.

*Contracts:* The Department's contracting controls appear adequate. We observed the implementation and maintenance of current policies and procedures; adequate separation of duties among staff; contracts supported by appropriate documentation; proper contract modifications; and contracts properly authorized, executed, and monitored. However, we found the Department lacks adequate updated authorizing signatures for contracting activities and controls could be improved over contract processing and monitoring. See the Findings and Recommendations section for further analysis.

*Purchasing:* The Department's purchasing controls appear adequate to ensure that purchases are justified and reasonable, and assets are appropriately safeguarded when received. The Department has adequate separation of duties; purchasing policies and procedures are documented; purchases of goods and services are proper, economical, and include appropriate authorizations; and invoices are reviewed and processed promptly and accurately.

*Personnel/Payroll:* The Department's controls over the personnel and payroll functions are sufficient to ensure the reliability and integrity of data. We observed the implementation and maintenance of current policies and procedures and adequate separation of duties among staff. However, we observed inadequate monitoring of employee leave balances. See the Findings and Recommendations section for further analysis.

*Information Technology:* The Department's information technology controls appear adequate to ensure the overall reliability and integrity of data. We observed adequate separation of duties among staff and the implementation and use of current policies and procedures. However, we observed improper employee access to the California State Accounting Reporting System and late submittal of the Department Designation Letter and Risk Management Plan. See the Findings and Recommendations section for further analysis.

This report is intended to assist Department management in focusing attention on areas of deficiency, and in strengthening internal control and improving operations.

## AUDITOR'S REPORT

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Mr. Wayne Stumpfer, Acting Corporations Commissioner  
Department of Corporations  
1515 K Street, Suite 200  
Sacramento, CA 95814

We have reviewed the Department of Corporations' (Department) internal control in effect as of March 17, 2005 for conformity with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code, Section 13400 et seq. Our review included obtaining an understanding of the Department's internal control through observations and interviews, testing and evaluating the internal control design and operating effectiveness, and performing other procedures we considered necessary. Additionally, we reviewed the controls over cash receipts and fixed assets at the Los Angeles office.

Department management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13400 et seq., includes documenting internal control, communicating requirements to employees, and assuring that the internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control are to provide reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, and certain other state laws and regulations, as well as the Department's policies and procedures.

Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In reviewing the Department's internal control as of March 17, 2005, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies

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in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a condition that precludes the Department's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We believe the reportable conditions concerning cash receipts, accounts receivable, cash disbursements, revolving fund, and fixed assets are material weaknesses. These weaknesses and other reportable conditions are described in the *Findings and Recommendations* section of this report. Immaterial, non-reportable findings and observations were also discussed with Department staff and management.

This report is intended solely for the information and use of Department management and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record and its distribution is not limited.

Original signed by Diana L. Ducay

Diana L. Ducay  
Chief, Office of State Audits and Evaluations  
(916) 322-2985

March 17, 2005

# FINDINGS AND RECOMMENDATIONS

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## Cash Receipts

The Department receives cash for license, examination, and assessment fees; fines, and penalties. Effective internal controls over cash receipts are necessary to ensure that all amounts are properly safeguarded, collected, deposited, and remitted. We identified the following material weaknesses in the Department's internal control over the cash receipts accounting process.

### **FINDING 1                      Inadequate Controls Over Cash Receipting**

**Condition:**                      During our review, we noted several weaknesses in the Department's cash receipting process:

1. The Department does not prepare a daily inventory of the number of checks received. Checks received in the mailroom are either forwarded directly to the cashiers or are given to Program Support for scanning into the CAL-EASI system. Though the cashiers do log the number of checks received from Program Support, there is no initial count to reconcile to. Furthermore, checks are also received by the Receptionist who doesn't record the number of payments received. This condition was also noted in the Los Angeles office.
2. No prelisting is prepared for cash receipts not payable to the Department. This condition was also noted in the Los Angeles office.
3. All checks received are not endorsed the day they are received. Checks sent late in the day to Program Support for scanning are held and are not forwarded to the cashiers until the following day, when they are endorsed by the cashiers.

**Criteria:**                      Prudent business practice dictates cash collections should be adequately controlled to safeguard against loss or irregularities, including inventorying all collections when received.

State Administrative Manual (SAM) Section 8020.1 states all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency, will be prelisted by the person opening the mail to localize accountability of these assets.

SAM Section 8034.1 states agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received.

Recommendation: Document all cash collections at the time of receipt. Reconcile receipt reports with collection reports prepared by the cashiers.

Prepare prelisting of checks not payable to the Department.

Endorse all checks when received.

DOC's Response: *Procedures to address this finding will be completed by February 2006.*

## **FINDING 2                      Untimely Cash Receipts Deposits**

Condition: The Department does not deposit cash receipts timely. Specifically, 11 out of 25 collection reports (44 percent) we tested during October, November, and December 2004, were not deposited as required. The delay in depositing was generally only one day, however, the amounts deposited averaged \$38,372 indicating a deposit should have, at minimum, been made daily. Although the delays were immaterial in the number of days late, the frequency of untimely deposits over a three-month period indicates a recurring pattern of deficient depositing practices.

Criteria: SAM Section 8032.1 states that agency will accumulate collections until they amount to \$10,000 in cash, money orders, and warrants. An agency may deposit more often than once a day because of the size of its cash receipts.

Recommendation: Ensure all cash receipts totaling \$10,000 or more are deposited at least daily.

DOC's Response: *Currently depositing daily per SAM 8032.1. Revised Cashiers Desk procedures to comply with this requirement.*

## **FINDING 3                      Untimely Remittance to State Treasurer**

Condition: The Department does not remit accumulated deposits to the State Treasurer's Office timely. Specifically, based on the amount of deposits during October, November, and December 2004, the Department should have submitted at least 13 Remittance Advices; however, only 4 (31 percent) were submitted. Untimely remittances may result in material amounts of lost interest.

Criteria: SAM Section 8091 states that accumulated deposits of \$25,000 will be remitted as soon as possible, but not later than the first day of the week following the accumulation.

Recommendation: Ensure all accumulated deposits exceeding \$25,000 are remitted to the State Treasury timely.

*DOC's Response: Currently remitting weekly to comply with SAM 8091. Revised Accounts Receivable Supervisors desk procedures to comply with this requirement.*

**FINDING 4                      Inadequate Safeguarding of Cash and Other Valuables**

The Department's safe is not adequately restricted to prevent loss and misappropriation of cash receipts and blank check stock. The safe is located in a lockable file room; however, the file room and the safe both remain open during business hours. Additionally, neither the Sacramento office nor the Los Angeles office maintain a record of when the combinations were last changed nor the names of persons knowing the current combination. The Los Angeles office could not provide information on when the combination was last changed. The Sacramento office combination was changed in July 2001, although one employee with knowledge of the combination has since left the Department. The Sacramento office has recently requested a combination change.

Criteria: SAM Section 8024 states that a record will be kept showing: (a) date the combination last was changed and (b) names of persons knowing the present combination. Furthermore, the combination will be changed if any employee having knowledge of the combination leaves the employ of the state agency, or no longer requires the combination in the performance of his or her duties.

Recommendation: Unlock the safe only when access is required. Ensure that the combination to the safe is changed when required by SAM. Maintained records of the date changes are made to the combination and of all staff having the combination.

*DOC's Response: Safe combination changed and logged in safe. Replaced key to the door enabling the Office to lock the door during business hours. Safe procedures have been established. The Los Angeles Office safe combination change is pending.*

**FINDING 5                      Outstanding Uncleared Collections**

Condition: The Department has a large number of outstanding uncleared collections. As of December 2004, \$164,630 of the \$196,156 (74 percent) uncleared collections balance was outstanding in excess of 365 days. Furthermore, the uncleared collections dated back to 1997. Excessive uncleared collections reduce the funds available for the Department's use.

Criteria: SAM Section 7826 states that receipts for cash, application forms, remittance advices and other documents supporting cash receipts, of which the disposition cannot be identified or which cannot for any reason be cleared as revenue, reimbursements, etc., are to be placed in uncleared collections. These are to be removed and disposition noted thereon as the items are cleared and applied, or are refunded.

Recommendation: Investigate and clear outstanding uncleared collections in a timely manner.

DOC's Response: *As of June 30, 2005 balance of GL 3730 is \$59,647.55. Procedures established to monitor and process Uncleared Collection postings. Updated procedures for the Cashiers desk and the Cash Receipts desk to monitor and adjust Uncleared Collections every month.*

#### **FINDING 6                      Erroneous Endorsement Stamp**

Condition: The Department's endorsement stamp incorrectly reads "Department of Operations."

Criteria: SAM Section 8034.1 states the endorsement will contain the name of the agency making the deposit.

Recommendation: Ensure the endorsement stamp contains the correct information.

DOC's Response: *Stamps replaced with correct department name information.*

#### **Accounts Receivable**

Effective internal control over the account receivable process is necessary to ensure that controls are established for amounts due, amounts are billed timely, and adequate collection efforts are made on outstanding receivables. We observed the following material weaknesses in the Department's internal control over receivables.

#### **FINDING 7                      Monthly Reconciliations Are Not Performed Timely or Reviewed**

Condition: Reconciliations between the Department's Regulatory and Assessment Billing Database and the California State Accounting and Reporting System (CALSTARS) were not completed timely. The Department completed the July, August, September, October, and November 2004, reconciliations on January 31, 2005. Furthermore, while the reconciliations did identify the date prepared and the preparer, they did not include the reviewer's name or date reviewed.

Criteria: SAM Section 7907 states all reconciliations will be prepared monthly within 30 days of the preceding month.

SAM Section 7908 states all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

Recommendation: Prepare and review reconciliations within 30 days as required and include the reviewer's name and date reviewed.

DOC's Response: *Procedures developed for Accounts Receivable reconciliation. Accounts Receivable desk reconciles monthly activity in the billing database to billing A/R entries into Calstars. Reconciliations are current and done monthly. Accounts receivable desk procedures updated to include process.*

**FINDING 8                      No Write Offs of Accounts Receivables Cause Excessive Outstanding Amounts**

Condition:                      The Department does not perform write offs of outstanding accounts receivables, causing an overstatement of the account. As of December 2004, \$2,505,096 of the \$3,736,911 (67 percent) accounts receivable balance was outstanding in excess of 365 days. Furthermore, between July 2004 and December 2004, the Department did not write-off any accounts receivable balances.

Criteria:                        SAM Section 8776.6 states each department will develop collection procedures that will assure prompt follow-up on receivables. Additionally, if all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectible amounts due from private entities.

Recommendation:            Perform reviews of outstanding accounts receivable balances on a regular basis. When deemed uncollectible, execute write-off procedures to accurately reflect accounts receivable balances.

*DOC's Response:            With the assistance of FSCU and DOC Program managers, determined that the majority, (based on assessment activity), of old account receivables were invalid receivables. Developed procedures to write off uncollectible receivables and review monthly.*

**Cash Disbursements**

Effective internal control over the cash disbursement process is necessary to ensure that controls are adequate to safeguard cash, and to prevent and detect timely any errors or irregularities. We identified the following material weaknesses in the Department's internal control over cash disbursements.

**FINDING 9                      Lack of Separation of Duties in the Cash Disbursement Process**

Condition:                      The Department does not adequately separate the duties of staff performing the cash disbursement process. We noted the following duty conflicts during our review:

- The primary employee in charge of maintaining the blank check stock also performs the bank reconciliations.
- The employee who compares checks signed with supporting documents is also the back-up for maintaining blank check stock. Beginning February 2005, the Department stated the employee no longer has access to the blank check stock.
- The employee who prepares checks is also the back-up for distributing expense advance checks.

Criteria: SAM Section 8080 states that persons performing bank reconciliations and comparing checks with supporting documents will not have access to or control blank check stock. Furthermore, checks will not be distributed through the person who prepared the check.

Recommendation: Reassign conflicting duties to other employees or units within the Department.

DOC's Response: *Implemented separation of duties and revised all applicable desk procedures.*

**FINDING 10                      No Written Procedures For the Check Signing Process**

Condition: The Department does not have written procedures documenting its check signing process. Failure to document procedures increases the risk of inconsistencies and errors and diminishes the Department's training effectiveness should staff turnover occur. Subsequent to fieldwork the Department provided us a copy of its newly documented procedures, however, we were not able to evaluate whether the Department has implemented the procedures.

Criteria: SAM Section 20050 states that one of the symptoms of a control deficiency in an organization is that policy and procedural or operational manuals are either not current or are nonexistent.

Recommendation: Ensure procedures are documented and disseminated to appropriate staff.

DOC's Response: *Created and implemented procedures for check signing process.*

**FINDING 11                      Deficient Monitoring of Check Stock**

Condition: The Department does not have an effective and comprehensive way to adequately monitor blank check stock. Specifically, the Department maintains two separate blank check logs; one for its General Cash and one for its Office Revolving fund. During the course of business, the Department assigns a series of checks to each log as needed. This causes an unordered listing of checks in each log. The Department does not perform a periodic review of the logs to ensure all checks are accounted for or that the logs are complete. During our review, we identified missing dates and transfer signatures within both of the logs, and check stock that was recorded on the log, but was still in the safe. Inadequate controls over blank check stock can lead to misappropriation and the lack of timely detection if loss occurs.

Criteria: SAM Section 8041 states agencies will keep check stock under strict control at all times. Transfer of check stock between persons will be acknowledged by transfer receipts showing the check numbers of the stock transferred. These receipts will be kept by the transferor and transferee until the period covered has been audited.

Recommendation: Develop procedures to account for all blank check stock. Ensure blank check logs are complete including transfer signatures and dates.

DOC's Response: *Procedures and new blank check logs established.*

**FINDING 12                      Inadequate Reconciliation of Checks Signed**

Condition: The Department does not adequately perform a reconciliation of the check preparer's log to the check reviewer's log. At the time of fieldwork the Department provided a check signing log which identified the check number and the check signing machine meter reading. Later we were provided with an updated check counter log and check counter worksheet (worksheet) used for reconciliation. A limited review of the logs and the worksheet identified the following issues:

- Between January 3, 2005 and January 14, 2005, both logs included two voided checks that were not identified on the worksheet.
- On January 10, 2005, the worksheet included one hand signed check that was not identified on either log.
- The worksheet did not include a voided check identified on the check signing log.
- On January 28, 2005, the check counter log included two voided checks that were not identified on the worksheet. Additionally, the worksheet identified four checks signed on January 31, 2005, while the check counter log identified them as signed on January 28, 2005.
- The worksheet did not include a reviewer's name or date the reconciliation was performed.

Additionally, we were unable to determine if the person who reviews signed checks with supporting documents compares the daily meter reading with their reviewer's log.

Criteria: SAM Section 8081 details the information required to be on daily logs maintained by the person who prepares checks and the person who compares signed checks to authorizations and supporting documents. In addition, each day the person performing the comparison will compare their log to the check signing machine meter reading.

Recommendation: Ensure all check logs are complete and in accordance with the SAM requirements. Perform and record reconciliations daily.

DOC's Response: *The new procedures require 3 staff to process checks. The Check Printer Operation feeds blank checks into the machine and a check is generated. The operation logs information onto the Check Signing Log. The operator then forwards the checks to the check signing machine operator. The*

*signing machine operator writes the beginning number from the check signing machine in the check log. Then the check goes through the Check Signing Machine. The signing operator then writes the ending number from the check signing machine on to the check signing log. The third staff person, check reviewer, verifies the meter reading, verifies that the beginning and ending meter numbers are written in the check log, and then initials the log.*

### **FINDING 13                      Excessive Outstanding Agency Checks**

- Condition:                      The Department has excessive outstanding agency checks in both its general fund account and its revolving fund account. We identified \$229,674 of the \$329,537 (70 percent) total outstanding check balance to be in excess of one year since their issue date, with the longest dating to 1995. Failure to research and escheat checks beyond their period of negotiability results in complex reconciliations and a complicated audit trail.
- Criteria:                      SAM Section 8042 states that at least one week prior to the end of the one-year period of negotiability for checks issued, the agencies will send a Stop Payment Request form to the State Treasurer's Office (STO) for all uncashed checks. Upon confirmation from the STO of stop payment request, agencies will cancel the checks and remit the amount to the escheat revenue account in the fund from which the checks were drawn, or credit the amount back to the office revolving fund, as applicable.
- Recommendation:                      Ensure checks outstanding beyond their period of negotiability are promptly cancelled and escheated.
- DOC's Response:                      Procedures established for processing stale dated checks. General Ledger desk procedures updated. KO1 report has been reduced by \$100,000 from \$314,368. Research continuing on stale dated items from previous fiscal years.*

### **FINDING 14                      Deficient Monitoring of Outstanding Checks**

- Condition:                      During our review, we identified a voided check dated June 1, 2002 that was reported on the CALSTARS K01, Outstanding Check Report as of January 31, 2005. The check was marked void in the check signing log and on the check foil, however was recorded as two \$150 checks on the CALSTARS report. The check has been an outstanding item on the bank reconciliation for over two years.
- Criteria:                      SAM Section 7901 states the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications. Corrections of errors should be made before financial reports are prepared.
- Recommendation:                      Ensure that transactions are properly posted into the CALSTARS by reviewing and reconciling account information.

*DOC's Response: Procedures established for monitoring stale dated checks and for the escheated warrants process. General Ledger desk procedures updated to reflect this change.*

## **Revolving Fund**

The Department's revolving fund is intended for the payment of travel, salary, and expense advances, or where immediate expense payment is otherwise necessary. We identified the following material weaknesses in controls over the revolving fund.

### **FINDING 15                      Revolving Fund Reconciliations Are Not Performed Timely**

**Condition:** The Department did not perform revolving fund reconciliations in a timely manner. On January 14, 2005, five months (July, August, September, October, and November) of reconciliations were completed. Revolving fund reconciliations should be performed timely to ensure errors are promptly identified and corrected.

**Criteria:** SAM Section 7901 states all reconciliations are to be prepared monthly within 30 days of the preceding month.

**Recommendation:** Perform reconciliations within 30 days of the prior month's end.

*DOC's Response: Revolving Fund reconciliations are current and completed on a monthly basis per SAM 7901.*

### **FINDING 16                      Long Outstanding Travel and Salary Advances**

**Condition:** The Department does not review or clear all revolving fund advances timely. During our review of travel, salary, and expense advances, we noted the following:

- Travel advances dating from January 1998 are still being reported. At the time of our fieldwork, advances in excess of 90 days total \$21,834 including: \$4,042 (90+ days), \$12,458 (120+ days), and \$5,352 (365+ days). As of February 2005, the Department has reduced the amount outstanding; however, we did not review the appropriateness of the reduction.
- Outstanding salary advances included two advances to one employee dated June and July 1997, which totaled \$1,744. Additionally, there was no information to support the advances.

**Criteria:** SAM Section 8116.3 states that the department must first give notification of collection to the employee as discussed in SAM Section 8776.7. Then, if the employee does not submit TECs to substantiate the travel expenses within 30 calendar days of the periodic statement date, the total travel advance amount must be deducted from the next regular payroll warrant(s).

SAM Section 8595 states that payroll advances shall be issued for amounts as close as possible to the actual net payments which will be made by the State Controller's Office. Agencies shall pay the difference between the employee's full net pay and the salary advance upon receipt of the Controller's warrant for the full salary payment.

Recommendations: Review and clear revolving fund advances timely. Send collection letters to employees with advances outstanding over 30 days.

DOC's Response: *Developed procedures for Discharge of Accountability process. Updated Accounts Payable Lead desk procedures. The old advances identified in the audit have been cleared. Current status, nothing on file over 90 days.*

#### **FINDING 17                      Inadequate Monitoring of Petty Cash Fund Custodians**

Condition: The Department does not effectively monitor the custodians for the petty cash fund. When custodianship of the fund is transferred, the Department does not update the CALSTARS Cash on Hand report which documents the names of the custodians and amounts issued. As of January 2005, two employees (from 1997) are identified as having petty cash responsibilities, but they are no longer the custodians.

Criteria: SAM Section 8111.2 states the custodian will be personally responsible for the amount advanced from the revolving fund. Transfers of custody will be accomplished only after: (a) personal audit of the fund has been made by the employees directly concerned; and (b) a receipt has been given by the newly assigned custodian to the custodian being relieved.

Recommendation: Document in the accounting records the custodian of the petty cash fund. Ensure the transfer of the petty cash fund is in accordance with the SAM.

DOC's Response: *Since this incident occurred in 1997, the statute of limitations to collect has expired. The item was discharged. Currently no petty cash fund necessary. Accounts Payable lead desk procedures in process.*

#### **FINDING 18                      No Submittal of the Report of Office Revolving Fund Deficiency Claims for Reimbursements**

Condition: The Department did not submit its Report of Office Revolving Fund Deficiency Claims for Reimbursement to the Department of Finance by the September 30 due date. Subsequent to the end of field work, the Department stated it submitted its fiscal year 2003-04 report on March 30, 2005.

Criteria: SAM Section 8072 states that for each fiscal year, agencies will prepare and submit a report of office revolving fund deficiency claims for reimbursements *whether or not such claims were filed*. If no claims were filed during the fiscal year, the report will contain the statement, "No Claims for Reimbursement were filed during the fiscal year." If claims were filed, the report will detail the disposition of all Claims for

Reimbursement. The report will be submitted to Department of Finance, Office of State Audits and Evaluations, by September 30.

Recommendation: Complete and submit the required report in accordance with the SAM.

DOC's Response: *All reports have been submitted. The Fiscal Year 2004/2005 report was submitted on time.*

## Fixed Assets

Effective internal controls safeguard property, plant, and equipment from unauthorized acquisition, use, or disposition. We identified the following material weaknesses in internal control over the Department's fixed assets. These weaknesses significantly increase the risk that the Department's property may be misappropriated.

### FINDING 19 Property Records are Incomplete

Condition: The Department does not consistently post property acquisitions, disposals, or complete information in its property logs, inventory excel worksheets, or the CALSTARS property reports. During our review, we noted the following:

- Not all property purchased was posted to CALSTARS. We selected 18 purchase orders to verify receipt of goods and posting to the property records. We noted that 8 of the 18 (44 percent) were not listed on the CALSTARS H11 Minor Equipment Report.
- Surveyed information technology (IT) equipment is not promptly removed from the property records. Specifically, of 112 items surveyed, 18 items (16 percent) were still on the Information Technology (IT) inventory excel worksheets and not identified as salvaged.
- IT inventory excel worksheets do not include information for the identification of capitalized and non-capitalized property. The Department maintains separate ledgers for IT equipment and servers. While both ledgers allow for purchase price information, on most items it was not included. Without purchase price information, it is not possible to identify items that should be capitalized.

Criteria: SAM Section 8600 states property accounting procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

SAM Section 8602 states that state property greater than \$5,000 and with a useful life greater than one year are recorded as an asset in the general ledger account and capitalized.

Recommendations: Ensure property records are updated and complete.

DOC's Response: *Procedures will be developed by April 2006.*

**FINDING 20                      Property Reconciliations Are Not Performed As Required**

Condition:                      The Department does not perform monthly reconciliation of its property registers to the general ledger, nor does it perform quarterly reconciliations of its capitalized property transactions to its property ledger. Currently, the Department is only performing capitalized property reconciliations at year-end. Without reconciliations, errors or irregularities can go undetected.

Criteria:                        SAM Section 7800 states that subsidiary records (property registers assets) will be reconciled to the general ledger monthly.

SAM Section 7924 states that at least quarterly, acquisitions and dispositions of capitalized property will be reconciled with the amounts recorded in the property ledger.

Recommendations: Perform reconciliations as required.

DOC's Response: *Procedures for completion of property records, including criteria for monthly property reconciliations per SAM 7800 will be completed by June 2006.*

**FINDING 21                      Fixed Asset Controls Should Be Strengthened to Ensure the Proper Recording and Tagging of Property**

Condition:                      The Department does not ensure that fixed assets are recorded and tagged properly. We noted the following exception for 48 items we reviewed:

- 5 items were missing property tags
- 4 items were not on the property listing
- 2 items were reported twice in the property listing
- 1 tag number was listed for 2 different items
- 1 tag was titled "Department of Managed Care"
- 1 tag number was entered incorrectly in the property listing
- 1 tag series was incorrect

At the Los Angeles office, we were unable to ensure the completeness of the property listing through verification of tagged equipment. At the time of our review, no property listing was provided to allow us to perform testing.

Criteria:                        SAM Section 8651 states all property will be tagged after acquisition. This includes property which does not meet all of the state's capitalization requirements.

SAM Section 8600 states property accounting procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

Recommendations: Ensure all acquisitions are promptly and correctly recorded in the property ledgers and ledgers are available. Ensure all property is tagged correctly.

DOC's Response: *New policies and procedures will be completed by March 2006.*

## **FINDING 22                      Deficient Inventory Practices**

Condition: The Department does not exercise adequate inventory practices to ensure the accountability of property. We noted the following deficiencies during our review:

- No inventory count sheets could be provided; therefore, we were unable to confirm that inventories had been performed. The Department stated that inventories were performed at the Sacramento and Los Angeles offices in June 2004.
- The Los Angeles office does not have policies and procedures for conducting inventory. The Los Angeles staff stated they follow the Department's Property Accounting Manual, however, the Los Angeles office did not have a copy.
- The Los Angeles office directed the Sacramento office to remove surveyed items from the inventory listing prior to disposal.

Inadequate inventory practices increase the risk of an inaccurate accounting of the Department's property and complicate the reconciliation of property records.

Criteria: SAM Section 8652 states that worksheets used to conduct the inventory will be retained for audit and will show the date of inventory and the name of the inventory taker.

SAM Section 20050 states that one of the symptoms of a control deficiency in an organization is that policy and procedural or operational manuals are either not current or are nonexistent.

The Department's Property Accounting Manual, Accounting for Property Dispositions, states that after the property has been physically disposed of, the Property Survey Report will be used to remove the property from the property excel database spreadsheet.

Recommendations: Strengthen inventory practices by retaining all inventory count sheets as required, providing copies of the inventory/accounting procedures to

satellite offices, and removing surveyed equipment from the property listing only after disposing of the item.

*DOC's Response: New policies and procedures will be completed by April 2006.*

*Response to noted deficiencies:*

- *First bullet (No inventory count sheets....): DOF's finding is correct. BOS was not able to provide inventory count sheets to DOF. However, in mid-January 2005, BOS provided assorted documents to DOF. Included was a cover letter which stated, "Inventory plan/procedures: Due to staffing and workload issues, and due to the small number of fixed assets located at each department office, informal visual inventories have been used to confirm the fixed asset inventory. In addition, the fixed asset inventory list has been confirmed during office moves and reconfigurations (recent moves: Los Angeles office May 2004, San Francisco office June 2004). Lastly, the Property Officer (Andy Garcia) is also responsible for the department Equipment Maintenance Program. Prior to requesting yearly maintenance agreements for fixed assets, the Property Officer will verify the physical location and confirm that the item is listed on the property ledger.*
- *Second bullet (Los Angeles office does not have policies....): DOF's finding is correct. The Los Angeles office Business Service Officer has since been provided a copy of the policies.*
- *Third bullet (Los Angeles office removes surveyed items....): Both copiers were originally surveyed on Property Survey Report #01-PS003. The Pitney Bowes copier, tag #EQP0000102 and Xerox 5385 copier, tag #EQP0000107 were both approved for disposal. The movers did not have room on their truck for these two copiers and were to return to pick them up, but never returned. The copiers have been placed on the active inventory property listing and will be re-surveyed.*

## **FINDING 23**

### **Deficient Survey Reports**

**Condition:** We identified the following weaknesses related to our review of 10 survey reports:

- 2 items were listed twice on a survey report
- 1 item was listed on 2 different survey reports.

Inadequate preparation of survey reports can complicate the reconciliation of property listings.

**Criteria:** SAM Section 8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report form. The department will adjust its property accounting records and retain the Property Survey Report as documentation.

Recommendation: Review all survey reports for accuracy.

DOC's Response: *Department will ensure that all survey reports are reviewed for accuracy.*

## Contracts

Effective internal control over the contracting function is required to ensure that contracts are properly executed, adequately supported, monitored and completed; competitive bidding requirements are followed; splitting is avoided; and annual reports are completed. We noted the following weakness in the controls over contracting.

### **FINDING 24                      Controls Over Contracting Could be Improved**

Condition: We reviewed 10 contracts of the 75 (13 percent) service contracts the Department had at the time of our review. We noted the following weaknesses:

- A contract amendment made after receiving an invoice which exceeded the remaining contract balance.
- Lack of adequate supporting documents for one contract's invoices.
- Delayed processing of an invoice caused the loss of a cash discount.

Additionally, the Department did not have an updated list of officers authorized to sign contracts. The list provided during our review included an employee no longer with the Department.

Criteria: State Contracting Manual, Section 9.04.8 states the contract manager is responsible for requesting amendments in sufficient time to process the change before the contract expires or funds are depleted.

State Contracting Manual, Section 9.04.9 states the contract manager should review and approve invoices for payment to substantiate expenditures for work performed.

SAM Section 8422.1 states that prior to preparing a claim schedule, agencies will determine that cash discounts have been taken.

State Contracting Manual, Section 2.06 states that a state agency's authority to contract is limited to those officers who are authorized in writing to do so by the agency head.

Recommendations: Review and monitor contract balances and invoice support prior to payments, and ensure timely processing of invoices. Maintain and update promptly a list of officers authorized to sign contracts.

*DOC's Response: The authorized list of officers has been updated and approved. Additionally, the department will establish procedures to adhere to the State Administration Manual requirements, and Department of Finance's recommendation by May 2006.*

## **Personnel/Payroll**

Effective internal control over the personnel and payroll function is required to ensure that Department staff are properly appointed, have not separated with outstanding advances or in possession of Department assets, and payroll information is processed accurately and timely. We noted the following weakness in the controls over personnel and payroll.

### **FINDING 25 Inadequate Monitoring of Employee Leave Balances**

**Condition:** The Department does not adequately monitor employees' annual leave and vacation balances. We tested 100 percent of 248 employees for calendar year 2004 and found that 24, or 9.7 percent, of the employee leave balances exceeded the maximum accumulation of leave balances allowed each calendar year. Furthermore, for the observed employees, the Department could not provide copies of leave balance reduction plans.

**Criteria:** Department of Personnel Administration (DPA) Rule 599.752 states an employee's annual leave credit balance shall not exceed 80 annual leave days (640 hours). Furthermore, DPA Rule 599.742.1 states in the event excess hours are accrued, a plan to reduce the leave balance to the maximum amount allowed by January 1 of the following year is required.

**Recommendation:** Require employees to submit plans to expend vacation hours in an effort to bring leave balances into compliance with authorized carryover levels.

*DOC's Response: On December 3, 2004, the Human Resources Office (HRO) sent out a memorandum to all managers and supervisors informing them that a small percentage of employees (24 or 9.7 percent) had exceeded the DPA/MOU vacation/annual leave cap. Mgrs/sups were instructed to work with their staff to develop leave balance reduction plans. Additionally, on March 29, 2005, a follow-up memo was sent to mgrs/sups. As of May 2005, the HRO had received 17 reduction plans for the 2004 calendar year. Additionally, in the past few months, several staff members identified on this list have either retired or left the Department. This information was provided to the Department of Finance, Office of State Audits and Evaluations Auditors.*

*The HRO is required (by DPA policy) to annually distribute a memorandum to all mgrs/sups informing them of their respective employees who have exceeded the authorized vacation/annual leave cap. This typically occurs at the end of each calendar year. Additionally, the HRO sends out periodic reminders to all impacted mgrs/sups if reduction plans are not in place by March of each year.*

*The Human Resources Office will continue to keep this process in place. Additionally, HRO will send out not only the March reminder, but for those mgrs/sups and employees who do not comply by June of each year, the HRO will provide a listing of those employees to the Deputy Commissioner, Office of Management and Budget.*

## **Information Technology**

Information technology controls are necessary to ensure data reliability and integrity through input, processing, and output functions. We observed the following weaknesses in the Department's information technology controls.

### **FINDING 26                      Improper Employee Access to the CALSTARS**

Condition:                      The Department does not promptly cancel separated employees' access to the CALSTARS. We identified two separated employees who still retained log-on ability.

Criteria:                        CALSTARS Procedure Manual, Chapter XIX - Internal Control states, "when anyone with a CALSTARS SIGNON ID leaves the accounting unit, the Agency Security Supervisor should immediately submit CALSTARS 95, CALSTARS Security Form, to cancel that person's access."

Recommendation:            Promptly cancel employee's CALSTARS access upon separation.

*DOC's Response:            Established procedures to implement this recommendation.*

### **FINDING 27                      Late Submittal of Department Designation Letter and Risk Management Plan**

Condition:                      The Department did not submit its Department Designation letter and Risk Management Plan to the Department of Finance by the January 31 due date. Both the Risk Management Plan and the Department Designation were last submitted October 15, 2004.

Criteria:                        SAM Section 4841.1 states that on an annual basis the Director of each state agency must submit a Department Designation Letter designating critical personnel. Furthermore, the agency director must certify that the agency is in compliance with state policy governing information technology security and risk management by submitting the Risk Management Certification. The Statewide Information Management Manual (SIMM) requires both documents be submitted annually by January 31.

Recommendation:            Complete and submit all reports in accordance with the SAM and SIMM requirements.

*DOC's Response:            Established procedures to comply with these requirements.*

## C ONCLUSION

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Our review of the Department's internal control presents opportunities for Department management to correct identified weaknesses and improve its operations. We believe internal control would be strengthened and the Department would operate more efficiently and effectively if management implements our recommendations. The internal control material weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected, and the other reportable conditions, if left uncorrected could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The findings in this report are based on fieldwork performed between January 4, 2005 and March 17, 2005. We presented our findings and observations to the related divisions, units, and Department management throughout our fieldwork.



**DEPARTMENT OF CORPORATIONS***California's Investment and Financing Authority***WAYNE STRUMPFER****Acting California Corporations Commissioner**

Sacramento, California

December 27, 2005

Ms. Diana Ducay, Chief  
Office of State Audits and Evaluations  
915 L Street  
Sacramento, CA 95814

Dear Ms. Ducay:

Enclosed is the Department of Corporations (DOC) response to your internal control audit dated March 2005. The DOC has provided its responses after each finding. We would like to thank you for the opportunity to respond to your audit report.

If you have any questions, please contact Valinda Debbs, Chief, Office of Financial Management, at (916) 322-4996.

Very truly yours,

WAYNE STRUMPFER  
Acting Corporations Commissioner

By: Original signed by Michele Bond  
MICHELE BOND  
Deputy Commissioner  
Office of Management and Budgets

MB/mb  
Encl.

cc: Ms. Sunne Wright McPeak, Secretary, Business, Transportation, and Housing Agency  
Mr. Michael Tritz, Chief Auditor, Business, Transportation, and Housing Agency  
Ms. Valinda Debbs, Chief, Office of Financial Management

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# Department of Corporation's Corrective Actions

## FINDINGS AND RECOMMENDATIONS

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### Cash Receipts

The Department receives cash for license, examination, and assessment fees; fines, and penalties. Effective internal controls over cash receipts are necessary to ensure that all amounts are properly safeguarded, collected, deposited, and remitted. We identified the following material weaknesses in the Department's internal control over the cash receipts accounting process.

#### **FINDING 1                      Inadequate Controls Over Cash Receipting**

Condition:                      During our review, we noted several weaknesses in the Department's cash receipting process:

1. The Department does not prepare a daily inventory of the number of checks received. Checks received in the mailroom are either forwarded directly to the cashiers or are given to Program Support for scanning into the CAL-EASI system. Though the cashiers do log the number of checks received from Program Support, there is no initial count to reconcile to. Furthermore, checks are also received by the Receptionist who doesn't record the number of payments received. This condition was also noted in the Los Angeles office.
2. No prelisting is prepared for cash receipts not payable to the Department. This condition was also noted in the Los Angeles office.
3. All checks received are not endorsed the day they are received. Checks sent late in the day to Program Support for scanning are held and are not forwarded to the cashiers until the following day, when they are endorsed by the cashiers.

Criteria:                      Prudent business practice dictates cash collections should be adequately controlled to safeguard against loss or irregularities, including inventorying all collections when received.

State Administrative Manual (SAM) Section 8020.1 states all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency, will be prelisted by the person opening the mail to localize accountability of these assets.

SAM Section 8034.1 states agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received.

Recommendation: Document all cash collections at the time of receipt. Reconcile receipt reports with collection reports prepared by the cashiers.

Prepare prelisting of checks not payable to the Department.

Endorse all checks when received.

DOC's Response: *Procedures to address this finding will be completed by February 2006.*

## **FINDING 2                      Untimely Cash Receipts Deposits**

Condition: The Department does not deposit cash receipts timely. Specifically, 11 out of 25 collection reports (44 percent) we tested during October, November, and December 2004, were not deposited as required. The delay in depositing was generally only one day, however, the amounts deposited averaged \$38,372 indicating a deposit should have, at minimum, been made daily. Although the delays were immaterial in the number of days late, the frequency of untimely deposits over a three-month period indicates a recurring pattern of deficient depositing practices.

Criteria: SAM Section 8032.1 states that agency will accumulate collections until they amount to \$10,000 in cash, money orders, and warrants. An agency may deposit more often than once a day because of the size of its cash receipts.

Recommendation: Ensure all cash receipts totaling \$10,000 or more are deposited at least daily.

DOC's Response: *Currently depositing daily per SAM 8032.1. Revised Cashiers Desk procedures to comply with this requirement.*

## **FINDING 3                      Untimely Remittance to State Treasurer**

Condition: The Department does not remit accumulated deposits to the State Treasurer's Office timely. Specifically, based on the amount of deposits during October, November, and December 2004, the Department should have submitted at least 13 Remittance Advices; however, only 4 (31 percent) were submitted. Untimely remittances may result in material amounts of lost interest.

Criteria: SAM Section 8091 states that accumulated deposits of \$25,000 will be remitted as soon as possible, but not later than the first day of the week following the accumulation.

Recommendation: Ensure all accumulated deposits exceeding \$25,000 are remitted to the State Treasury timely.

DOC's Response: *Currently remitting weekly to comply with SAM 8091. Revised Accounts Receivable Supervisors desk procedures to comply with this requirement.*

#### **FINDING 4**

#### **Inadequate Safeguarding of Cash and Other Valuables**

The Department's safe is not adequately restricted to prevent loss and misappropriation of cash receipts and blank check stock. The safe is located in a lockable file room; however, the file room and the safe both remain open during business hours. Additionally, neither the Sacramento office nor the Los Angeles office maintain a record of when the combinations were last changed nor the names of persons knowing the current combination. The Los Angeles office could not provide information on when the combination was last changed. The Sacramento office combination was changed in July 2001, although one employee with knowledge of the combination has since left the Department. The Sacramento office has recently requested a combination change.

**Criteria:** SAM Section 8024 states that a record will be kept showing: (a) date the combination last was changed and (b) names of persons knowing the present combination. Furthermore, the combination will be changed if any employee having knowledge of the combination leaves the employ of the state agency, or no longer requires the combination in the performance of his or her duties.

**Recommendation:** Unlock the safe only when access is required. Ensure that the combination to the safe is changed when required by SAM. Maintained records of the date changes are made to the combination and of all staff having the combination.

**DOC's Response:** *Safe combination changed and logged in safe. Replaced key to the door enabling the Office to lock the door during business hours. Safe procedures have been established. The Los Angeles Office safe combination change is pending.*

#### **FINDING 5**

#### **Outstanding Uncleared Collections**

**Condition:** The Department has a large number of outstanding uncleared collections. As of December 2004, \$164,630 of the \$196,156 (74 percent) uncleared collections balance was outstanding in excess of 365 days. Furthermore, the uncleared collections dated back to 1997. Excessive uncleared collections reduce the funds available for the Department's use.

**Criteria:** SAM Section 7826 states that receipts for cash, application forms, remittance advices and other documents supporting cash receipts, of which the disposition cannot be identified or which cannot for any reason be cleared as revenue, reimbursements, etc., are to be placed in uncleared collections. These are to be removed and disposition noted thereon as the items are cleared and applied, or are refunded.

**Recommendation:** Investigate and clear outstanding uncleared collections in a timely manner.

**DOC's Response:** *As of June 30, 2005 balance of GL 3730 is \$59,647.55. Procedures established to monitor and process Uncleared Collection postings.*

*Updated procedures for the Cashiers desk and the Cash Receipts desk to monitor and adjust Uncleared Collections every month.*

**FINDING 6                      Erroneous Endorsement Stamp**

Condition:                      The Department's endorsement stamp incorrectly reads "Department of Operations."

Criteria:                        SAM Section 8034.1 states the endorsement will contain the name of the agency making the deposit.

Recommendation:          Ensure the endorsement stamp contains the correct information.

*DOC's Response:          Stamps replaced with correct department name information.*

**Accounts Receivable**

Effective internal control over the account receivable process is necessary to ensure that controls are established for amounts due, amounts are billed timely, and adequate collection efforts are made on outstanding receivables. We observed the following material weaknesses in the Department's internal control over receivables.

**FINDING 7                      Monthly Reconciliations Are Not Performed Timely or Reviewed**

Condition:                      Reconciliations between the Department's Regulatory and Assessment Billing Database and the California State Accounting and Reporting System (CALSTARS) were not completed timely. The Department completed the July, August, September, October, and November 2004, reconciliations on January 31, 2005. Furthermore, while the reconciliations did identify the date prepared and the preparer, they did not include the reviewer's name or date reviewed.

Criteria:                        SAM Section 7907 states all reconciliations will be prepared monthly within 30 days of the preceding month.

SAM Section 7908 states all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

Recommendation:          Prepare and review reconciliations within 30 days as required and include the reviewer's name and date reviewed.

*DOC's Response:          Procedures developed for Accounts Receivable reconciliation. Accounts Receivable desk reconciles monthly activity in the billing database to billing A/R entries into Calstars. Reconciliations are current and done monthly. Accounts receivable desk procedures updated to include process.*

**FINDING 8**                      **No Write Offs of Accounts Receivables Cause Excessive Outstanding Amounts**

Condition:                      The Department does not perform write offs of outstanding accounts receivables, causing an overstatement of the account. As of December 2004, \$2,505,096 of the \$3,736,911 (67 percent) accounts receivable balance was outstanding in excess of 365 days. Furthermore, between July 2004 and December 2004, the Department did not write-off any accounts receivable balances.

Criteria:                      SAM Section 8776.6 states each department will develop collection procedures that will assure prompt follow-up on receivables. Additionally, if all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectible amounts due from private entities.

Recommendation:              Perform reviews of outstanding accounts receivable balances on a regular basis. When deemed uncollectible, execute write-off procedures to accurately reflect accounts receivable balances.

DOC's Response:              *With the assistance of FSCU and DOC Program managers, determined that the majority, (based on assessment activity), of old account receivables were invalid receivables. Developed procedures to write off uncollectible receivables and review monthly.*

**Cash Disbursements**

Effective internal control over the cash disbursement process is necessary to ensure that controls are adequate to safeguard cash, and to prevent and detect timely any errors or irregularities. We identified the following material weaknesses in the Department's internal control over cash disbursements.

**FINDING 9**                      **Lack of Separation of Duties in the Cash Disbursement Process**

Condition:                      The Department does not adequately separate the duties of staff performing the cash disbursement process. We noted the following duty conflicts during our review:

- The primary employee in charge of maintaining the blank check stock also performs the bank reconciliations.
- The employee who compares checks signed with supporting documents is also the back-up for maintaining blank check stock. Beginning February 2005, the Department stated the employee no longer has access to the blank check stock.
- The employee who prepares checks is also the back-up for distributing expense advance checks.

Criteria: SAM Section 8080 states that persons performing bank reconciliations and comparing checks with supporting documents will not have access to or control blank check stock. Furthermore, checks will not be distributed through the person who prepared the check.

Recommendation: Reassign conflicting duties to other employees or units within the Department.

DOC's Response: *Implemented separation of duties and revised all applicable desk procedures.*

#### **FINDING 10                      No Written Procedures For the Check Signing Process**

Condition: The Department does not have written procedures documenting its check signing process. Failure to document procedures increases the risk of inconsistencies and errors and diminishes the Department's training effectiveness should staff turnover occur. Subsequent to fieldwork the Department provided us a copy of its newly documented procedures, however, we were not able to evaluate whether the Department has implemented the procedures.

Criteria: SAM Section 20050 states that one of the symptoms of a control deficiency in an organization is that policy and procedural or operational manuals are either not current or are nonexistent.

Recommendation: Ensure procedures are documented and disseminated to appropriate staff.

DOC's Response: *Created and implemented procedures for check signing process.*

#### **FINDING 11                      Deficient Monitoring of Check Stock**

Condition: The Department does not have an effective and comprehensive way to adequately monitor blank check stock. Specifically, the Department maintains two separate blank check logs; one for its General Cash and one for its Office Revolving fund. During the course of business, the Department assigns a series of checks to each log as needed. This causes an unordered listing of checks in each log. The Department does not perform a periodic review of the logs to ensure all checks are accounted for or that the logs are complete. During our review, we identified missing dates and transfer signatures within both of the logs, and check stock that was recorded on the log, but was still in the safe. Inadequate controls over blank check stock can lead to misappropriation and the lack of timely detection if loss occurs.

Criteria: SAM Section 8041 states agencies will keep check stock under strict control at all times. Transfer of check stock between persons will be acknowledged by transfer receipts showing the check numbers of the stock transferred. These receipts will be kept by the transferor and transferee until the period covered has been audited.

Recommendation: Develop procedures to account for all blank check stock. Ensure blank check logs are complete including transfer signatures and dates.

DOC's Response: *Procedures and new blank check logs established.*

## **FINDING 12                      Inadequate Reconciliation of Checks Signed**

Condition: The Department does not adequately perform a reconciliation of the check preparer's log to the check reviewer's log. At the time of fieldwork the Department provided a check signing log which identified the check number and the check signing machine meter reading. Later we were provided with an updated check counter log and check counter worksheet (worksheet) used for reconciliation. A limited review of the logs and the worksheet identified the following issues:

- Between January 3, 2005 and January 14, 2005, both logs included two voided checks that were not identified on the worksheet.
- On January 10, 2005, the worksheet included one hand signed check that was not identified on either log.
- The worksheet did not include a voided check identified on the check signing log.
- On January 28, 2005, the check counter log included two voided checks that were not identified on the worksheet. Additionally, the worksheet identified four checks signed on January 31, 2005, while the check counter log identified them as signed on January 28, 2005.
- The worksheet did not include a reviewer's name or date the reconciliation was performed.

Additionally, we were unable to determine if the person who reviews signed checks with supporting documents compares the daily meter reading with their reviewer's log.

Criteria: SAM Section 8081 details the information required to be on daily logs maintained by the person who prepares checks and the person who compares signed checks to authorizations and supporting documents. In addition, each day the person performing the comparison will compare their log to the check signing machine meter reading.

Recommendation: Ensure all check logs are complete and in accordance with the SAM requirements. Perform and record reconciliations daily.

DOC's Response: *The new procedures require 3 staff to process checks. The Check Printer Operation feeds blank checks into the machine and a check is generated. The operation logs information onto the Check Signing Log. The operator then forwards the checks to the check signing machine operator. The*

*signing machine operator writes the beginning number from the check signing machine in the check log. Then the check goes through the Check Signing Machine. The signing operator then writes the ending number from the check signing machine on to the check signing log. The third staff person, check reviewer, verifies the meter reading, verifies that the beginning and ending meter numbers are written in the check log, and then initials the log.*

### **FINDING 13                      Excessive Outstanding Agency Checks**

- Condition:                      The Department has excessive outstanding agency checks in both its general fund account and its revolving fund account. We identified \$229,674 of the \$329,537 (70 percent) total outstanding check balance to be in excess of one year since their issue date, with the longest dating to 1995. Failure to research and escheat checks beyond their period of negotiability results in complex reconciliations and a complicated audit trail.
- Criteria:                      SAM Section 8042 states that at least one week prior to the end of the one-year period of negotiability for checks issued, the agencies will send a Stop Payment Request form to the State Treasurer's Office (STO) for all uncashed checks. Upon confirmation from the STO of stop payment request, agencies will cancel the checks and remit the amount to the escheat revenue account in the fund from which the checks were drawn, or credit the amount back to the office revolving fund, as applicable.
- Recommendation:                      Ensure checks outstanding beyond their period of negotiability are promptly cancelled and escheated.
- DOC's Response:                      Procedures established for processing stale dated checks. General Ledger desk procedures updated. KO1 report has been reduced by \$100,000 from \$314,368. Research continuing on stale dated items from previous fiscal years.*

### **FINDING 14                      Deficient Monitoring of Outstanding Checks**

- Condition:                      During our review, we identified a voided check dated June 1, 2002 that was reported on the CALSTARS K01, Outstanding Check Report as of January 31, 2005. The check was marked void in the check signing log and on the check foil, however was recorded as two \$150 checks on the CALSTARS report. The check has been an outstanding item on the bank reconciliation for over two years.
- Criteria:                      SAM Section 7901 states the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications. Corrections of errors should be made before financial reports are prepared.
- Recommendation:                      Ensure that transactions are properly posted into the CALSTARS by reviewing and reconciling account information.

*DOC's Response:*      *Procedures established for monitoring stale dated checks and for the escheated warrants process. General Ledger desk procedures updated to reflect this change.*

## **Revolving Fund**

The Department's revolving fund is intended for the payment of travel, salary, and expense advances, or where immediate expense payment is otherwise necessary. We identified the following material weaknesses in controls over the revolving fund.

### **FINDING 15                      Revolving Fund Reconciliations Are Not Performed Timely**

**Condition:**                      The Department did not perform revolving fund reconciliations in a timely manner. On January 14, 2005, five months (July, August, September, October, and November) of reconciliations were completed. Revolving fund reconciliations should be performed timely to ensure errors are promptly identified and corrected.

**Criteria:**                         SAM Section 7901 states all reconciliations are to be prepared monthly within 30 days of the preceding month.

**Recommendation:**          Perform reconciliations within 30 days of the prior month's end.

*DOC's Response:*      *Revolving Fund reconciliations are current and completed on a monthly basis per SAM 7901.*

### **FINDING 16                      Long Outstanding Travel and Salary Advances**

**Condition:**                      The Department does not review or clear all revolving fund advances timely. During our review of travel, salary, and expense advances, we noted the following:

- Travel advances dating from January 1998 are still being reported. At the time of our fieldwork, advances in excess of 90 days total \$21,834 including: \$4,042 (90+ days), \$12,458 (120+ days), and \$5,352 (365+ days). As of February 2005, the Department has reduced the amount outstanding; however, we did not review the appropriateness of the reduction.
- Outstanding salary advances included two advances to one employee dated June and July 1997, which totaled \$1,744. Additionally, there was no information to support the advances.

**Criteria:**                         SAM Section 8116.3 states that the department must first give notification of collection to the employee as discussed in SAM Section 8776.7. Then, if the employee does not submit TECs to substantiate the travel expenses within 30 calendar days of the periodic statement date, the total travel advance amount must be deducted from the next regular payroll warrant(s).

SAM Section 8595 states that payroll advances shall be issued for amounts as close as possible to the actual net payments which will be made by the State Controller's Office. Agencies shall pay the difference between the employee's full net pay and the salary advance upon receipt of the Controller's warrant for the full salary payment.

Recommendations: Review and clear revolving fund advances timely. Send collection letters to employees with advances outstanding over 30 days.

DOC's Response: *Developed procedures for Discharge of Accountability process. Updated Accounts Payable Lead desk procedures. The old advances identified in the audit have been cleared. Current status, nothing on file over 90 days.*

#### **FINDING 17                      Inadequate Monitoring of Petty Cash Fund Custodians**

Condition: The Department does not effectively monitor the custodians for the petty cash fund. When custodianship of the fund is transferred, the Department does not update the CALSTARS Cash on Hand report which documents the names of the custodians and amounts issued. As of January 2005, two employees (from 1997) are identified as having petty cash responsibilities, but they are no longer the custodians.

Criteria: SAM Section 8111.2 states the custodian will be personally responsible for the amount advanced from the revolving fund. Transfers of custody will be accomplished only after: (a) personal audit of the fund has been made by the employees directly concerned; and (b) a receipt has been given by the newly assigned custodian to the custodian being relieved.

Recommendation: Document in the accounting records the custodian of the petty cash fund. Ensure the transfer of the petty cash fund is in accordance with the SAM.

DOC's Response: *Since this incident occurred in 1997, the statute of limitations to collect has expired. The item was discharged. Currently no petty cash fund necessary. Accounts Payable lead desk procedures in process.*

#### **FINDING 18                      No Submittal of the Report of Office Revolving Fund Deficiency Claims for Reimbursements**

Condition: The Department did not submit its Report of Office Revolving Fund Deficiency Claims for Reimbursement to the Department of Finance by the September 30 due date. Subsequent to the end of field work, the Department stated it submitted its fiscal year 2003-04 report on March 30, 2005.

Criteria: SAM Section 8072 states that for each fiscal year, agencies will prepare and submit a report of office revolving fund deficiency claims for reimbursements *whether or not such claims were filed*. If no claims were filed during the fiscal year, the report will contain the statement, "No Claims for Reimbursement were filed during the fiscal year." If claims

were filed, the report will detail the disposition of all Claims for Reimbursement. The report will be submitted to Department of Finance, Office of State Audits and Evaluations, by September 30.

**Recommendation:** Complete and submit the required report in accordance with the SAM.

**DOC's Response:** *All reports have been submitted. The Fiscal Year 2004/2005 report was submitted on time.*

## **Fixed Assets**

Effective internal controls safeguard property, plant, and equipment from unauthorized acquisition, use, or disposition. We identified the following material weaknesses in internal control over the Department's fixed assets. These weaknesses significantly increase the risk that the Department's property may be misappropriated.

### **FINDING 19                      Property Records are Incomplete**

**Condition:** The Department does not consistently post property acquisitions, disposals, or complete information in its property logs, inventory excel worksheets, or the CALSTARS property reports. During our review, we noted the following:

- Not all property purchased was posted to CALSTARS. We selected 18 purchase orders to verify receipt of goods and posting to the property records. We noted that 8 of the 18 (44 percent) were not listed on the CALSTARS H11 Minor Equipment Report.
- Surveyed information technology (IT) equipment is not promptly removed from the property records. Specifically, of 112 items surveyed, 18 items (16 percent) were still on the Information Technology (IT) inventory excel worksheets and not identified as salvaged.
- IT inventory excel worksheets do not include information for the identification of capitalized and non-capitalized property. The Department maintains separate ledgers for IT equipment and servers. While both ledgers allow for purchase price information, on most items it was not included. Without purchase price information, it is not possible to identify items that should be capitalized.

**Criteria:** SAM Section 8600 states property accounting procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

SAM Section 8602 states that state property greater than \$5,000 and with a useful life greater than one year are recorded as an asset in the general ledger account and capitalized.

Recommendations: Ensure property records are updated and complete.

DOC's Response: *Procedures will be developed by April 2006.*

**FINDING 20                      Property Reconciliations Are Not Performed As Required**

Condition: The Department does not perform monthly reconciliation of its property registers to the general ledger, nor does it perform quarterly reconciliations of its capitalized property transactions to its property ledger. Currently, the Department is only performing capitalized property reconciliations at year-end. Without reconciliations, errors or irregularities can go undetected.

Criteria: SAM Section 7800 states that subsidiary records (property registers assets) will be reconciled to the general ledger monthly.

SAM Section 7924 states that at least quarterly, acquisitions and dispositions of capitalized property will be reconciled with the amounts recorded in the property ledger.

Recommendations: Perform reconciliations as required.

DOC's Response: *Procedures for completion of property records, including criteria for monthly property reconciliations per SAM 7800 will be completed by June 2006.*

**FINDING 21                      Fixed Asset Controls Should Be Strengthened to Ensure the Proper Recording and Tagging of Property**

Condition: The Department does not ensure that fixed assets are recorded and tagged properly. We noted the following exception for 48 items we reviewed:

- 5 items were missing property tags
- 4 items were not on the property listing
- 2 items were reported twice in the property listing
- 1 tag number was listed for 2 different items
- 1 tag was titled "Department of Managed Care"
- 1 tag number was entered incorrectly in the property listing
- 1 tag series was incorrect

At the Los Angeles office, we were unable to ensure the completeness of the property listing through verification of tagged equipment. At the time of our review, no property listing was provided to allow us to perform testing.

Criteria: SAM Section 8651 states all property will be tagged after acquisition. This includes property which does not meet all of the state's capitalization requirements.

SAM Section 8600 states property accounting procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property.

Recommendations: Ensure all acquisitions are promptly and correctly recorded in the property ledgers and ledgers are available. Ensure all property is tagged correctly.

DOC's Response: *New policies and procedures will be completed by March 2006.*

## **FINDING 22                      Deficient Inventory Practices**

Condition: The Department does not exercise adequate inventory practices to ensure the accountability of property. We noted the following deficiencies during our review:

- No inventory count sheets could be provided; therefore, we were unable to confirm that inventories had been performed. The Department stated that inventories were performed at the Sacramento and Los Angeles offices in June 2004.
- The Los Angeles office does not have policies and procedures for conducting inventory. The Los Angeles staff stated they follow the Department's Property Accounting Manual, however, the Los Angeles office did not have a copy.
- The Los Angeles office directed the Sacramento office to remove surveyed items from the inventory listing prior to disposal.

Inadequate inventory practices increase the risk of an inaccurate accounting of the Department's property and complicate the reconciliation of property records.

Criteria: SAM Section 8652 states that worksheets used to conduct the inventory will be retained for audit and will show the date of inventory and the name of the inventory taker.

SAM Section 20050 states that one of the symptoms of a control deficiency in an organization is that policy and procedural or operational manuals are either not current or are nonexistent.

The Department's Property Accounting Manual, Accounting for Property Dispositions, states that after the property has been physically disposed

of, the Property Survey Report will be used to remove the property from the property excel database spreadsheet.

**Recommendations:** Strengthen inventory practices by retaining all inventory count sheets as required, providing copies of the inventory/accounting procedures to satellite offices, and removing surveyed equipment from the property listing only after disposing of the item.

**DOC's Response:** *New policies and procedures will be completed by April 2006.*

*Response to noted deficiencies:*

- *First bullet (No inventory count sheets....): DOF's finding is correct. BOS was not able to provide inventory count sheets to DOF. However, in mid-January 2005, BOS provided assorted documents to DOF. Included was a cover letter which stated, "Inventory plan/procedures: Due to staffing and workload issues, and due to the small number of fixed assets located at each department office, informal visual inventories have been used to confirm the fixed asset inventory. In addition, the fixed asset inventory list has been confirmed during office moves and reconfigurations (recent moves: Los Angeles office May 2004, San Francisco office June 2004). Lastly, the Property Officer (Andy Garcia) is also responsible for the department Equipment Maintenance Program. Prior to requesting yearly maintenance agreements for fixed assets, the Property Officer will verify the physical location and confirm that the item is listed on the property ledger.*
- *Second bullet (Los Angeles office does not have policies....): DOF's finding is correct. The Los Angeles office Business Service Officer has since been provided a copy of the policies.*
- *Third bullet (Los Angeles office removes surveyed items....): Both copiers were originally surveyed on Property Survey Report #01-PS003. The Pitney Bowes copier, tag #EQP0000102 and Xerox 5385 copier, tag #EQP0000107 were both approved for disposal. The movers did not have room on their truck for these two copiers and were to return to pick them up, but never returned. The copiers have been placed on the active inventory property listing and will be re-surveyed.*

**FINDING 23                      Deficient Survey Reports**

**Condition:** We identified the following weaknesses related to our review of 10 survey reports:

- 2 items were listed twice on a survey report
- 1 item was listed on 2 different survey reports.

Inadequate preparation of survey reports can complicate the reconciliation of property listings.

**Criteria:** SAM Section 8643 states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report form. The

department will adjust its property accounting records and retain the Property Survey Report as documentation.

Recommendation: Review all survey reports for accuracy.

DOC's Response: Department will ensure that all survey reports are reviewed for accuracy.

## Contracts

Effective internal control over the contracting function is required to ensure that contracts are properly executed, adequately supported, monitored and completed; competitive bidding requirements are followed; splitting is avoided; and annual reports are completed. We noted the following weakness in the controls over contracting.

### FINDING 24 Controls Over Contracting Could be Improved

Condition: We reviewed 10 contracts of the 75 (13 percent) service contracts the Department had at the time of our review. We noted the following weaknesses:

- A contract amendment made after receiving an invoice which exceeded the remaining contract balance.
- Lack of adequate supporting documents for one contract's invoices.
- Delayed processing of an invoice caused the loss of a cash discount.

Additionally, the Department did not have an updated list of officers authorized to sign contracts. The list provided during our review included an employee no longer with the Department.

Criteria: State Contracting Manual, Section 9.04.8 states the contract manager is responsible for requesting amendments in sufficient time to process the change before the contract expires or funds are depleted.

State Contracting Manual, Section 9.04.9 states the contract manager should review and approve invoices for payment to substantiate expenditures for work performed.

SAM Section 8422.1 states that prior to preparing a claim schedule, agencies will determine that cash discounts have been taken.

State Contracting Manual, Section 2.06 states that a state agency's authority to contract is limited to those officers who are authorized in writing to do so by the agency head.

Recommendations: Review and monitor contract balances and invoice support prior to payments, and ensure timely processing of invoices. Maintain and update promptly a list of officers authorized to sign contracts.

*DOC's Response: The authorized list of officers has been updated and approved. Additionally, the department will establish procedures to adhere to the State Administration Manual requirements, and Department of Finance's recommendation by May 2006.*

## **Personnel/Payroll**

Effective internal control over the personnel and payroll function is required to ensure that Department staff are properly appointed, have not separated with outstanding advances or in possession of Department assets, and payroll information is processed accurately and timely. We noted the following weakness in the controls over personnel and payroll.

### **FINDING 25                      Inadequate Monitoring of Employee Leave Balances**

**Condition:**                      The Department does not adequately monitor employees' annual leave and vacation balances. We tested 100 percent of 248 employees for calendar year 2004 and found that 24, or 9.7 percent, of the employee leave balances exceeded the maximum accumulation of leave balances allowed each calendar year. Furthermore, for the observed employees, the Department could not provide copies of leave balance reduction plans.

**Criteria:**                      Department of Personnel Administration (DPA) Rule 599.752 states an employee's annual leave credit balance shall not exceed 80 annual leave days (640 hours). Furthermore, DPA Rule 599.742.1 states in the event excess hours are accrued, a plan to reduce the leave balance to the maximum amount allowed by January 1 of the following year is required.

**Recommendation:**        Require employees to submit plans to expend vacation hours in an effort to bring leave balances into compliance with authorized carryover levels.

*DOC's Response: On December 3, 2004, the Human Resources Office (HRO) sent out a memorandum to all managers and supervisors informing them that a small percentage of employees (24 or 9.7 percent) had exceeded the DPA/MOU vacation/annual leave cap. Mgrs/sups were instructed to work with their staff to develop leave balance reduction plans. Additionally, on March 29, 2005, a follow-up memo was sent to mgrs/sups. As of May 2005, the HRO had received 17 reduction plans for the 2004 calendar year. Additionally, in the past few months, several staff members identified on this list have either retired or left the Department. This information was provided to the Department of Finance, Office of State Audits and Evaluations Auditors.*

*The HRO is required (by DPA policy) to annually distribute a memorandum to all mgrs/sups informing them of their respective employees who have exceeded the authorized vacation/annual leave cap. This typically occurs at the end of each calendar year. Additionally, the HRO sends out periodic reminders to all impacted mgrs/sups if reduction plans are not in place by March of each year.*

*The Human Resources Office will continue to keep this process in place. Additionally, HRO will send out not only the March reminder, but for those mgrs/sups and employees who do not comply by June of each year, the HRO will provide a listing of those employees to the Deputy Commissioner, Office of Management and Budget.*

## **Information Technology**

Information technology controls are necessary to ensure data reliability and integrity through input, processing, and output functions. We observed the following weaknesses in the Department's information technology controls.

### **FINDING 26                      Improper Employee Access to the CALSTARS**

**Condition:**                      The Department does not promptly cancel separated employees' access to the CALSTARS. We identified two separated employees who still retained log-on ability.

**Criteria:**                      CALSTARS Procedure Manual, Chapter XIX - Internal Control states, "when anyone with a CALSTARS SIGNON ID leaves the accounting unit, the Agency Security Supervisor should immediately submit CALSTARS 95, CALSTARS Security Form, to cancel that person's access."

**Recommendation:**       Promptly cancel employee's CALSTARS access upon separation.

**DOC's Response:**       *Established procedures to implement this recommendation.*

### **FINDING 27                      Late Submittal of Department Designation Letter and Risk Management Plan**

**Condition:**                      The Department did not submit its Department Designation letter and Risk Management Plan to the Department of Finance by the January 31 due date. Both the Risk Management Plan and the Department Designation were last submitted October 15, 2004.

**Criteria:**                      SAM Section 4841.1 states that on an annual basis the Director of each state agency must submit a Department Designation Letter designating critical personnel. Furthermore, the agency director must certify that the agency is in compliance with state policy governing information technology security and risk management by submitting the Risk Management Certification. The Statewide Information Management Manual (SIMM) requires both documents be submitted annually by January 31.

**Recommendation:**       Complete and submit all reports in accordance with the SAM and SIMM requirements.

**DOC's Response:**       *Established procedures to comply with these requirements.*